MountainWorks, LLC
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July 15th, 2016

Return	April	May	June	Q2	Total Return (Feb 1st to June 30th)
MountainWorks	8.7%	0.6%	2.9%	12.5%	23.1%
S&P 500					8.4%

Dear Member,

Above is the total time weighted return for the fund through June 30th. For the second quarter, we returned 12.5%. Since the inception of the fund on February 1st, we have returned 23.1%, against 8.4% for the S&P 500 (dividends not included). MountainWorks is off to a good start; in addition to finding successes in the market, the fund will soon be registered with both the Securities and Exchange Commission and the NJ Bureau of Securities. When this happens, you will be able to search for the fund using the EDGAR database. These steps bring us closer to opening the fund to members next January. While MountainWorks continues to incubate, I invite you to reflect on your personal financial goals. How have you performed in the past? Where do you stand now? What do you want to accomplish in the future? There are many questions that need to be asked of yourself, and of me. What exactly is MountainWorks? What is the process for becoming a member? How will you be a part of the fund? What are the risks? What are the rewards? I hope to try an answer a few of these questions, as well as discuss particular investment strategies that we execute on a daily basis in order to achieve favorable outcomes. Simply stated, MountainWorks is a private investment fund that continues to be nimble, versatile, and swift; success is realized through connections.

Climbing a Mountain, One Step at a Time. We expect to file Form D with the SEC, and pursuant to the Securities Act of 1933, the fund will be exempt from registration under Rule 506(b) of Regulation D. What does that mean? The fund will be limited to 100 members, of which only 35 can be unaccredited investors (there are specific guidelines for establishing accredited investor status that will be part of the member process). In addition to SEC compliance, members must become part of MountainWorks through amendment of the LLC agreement and establishment of a Private Placement Memorandum. Essentially, you would be a member of the business yet only be liable for the initial principal contributed. The Private Placement Memorandum, among other things, outlines fees and distributions for the fund. Basically, returns on the fund will be subject to a Management Fee and a Performance Assessment. Typically, hedge fund managers will charge what is known as "2 and 20": a 2% annual fee on all assets, plus a 20% annual performance fee on all returns. MountainWorks fees will be much less obtrusive and much more reasonable. The fund will also employ multiple strategies. Some hedge funds, mutual funds, ETFs, etc. restrict their investments to specific guidelines. One hedge fund might strictly invest in merger arbitrage situations, while another might use long term call options with short term put options. Some mutual funds might be mid-cap growth funds, or only stick with Russell 2000 stocks. ETFs might lever themselves to the S&P 500, or technology stocks, or even countries. MountainWorks has no investment boundaries of any kind, only that we attempt to buy low and sell high. Assuming that every other investor is attempting to do the same, why might MountainWorks be better than other funds? Below is one small example of how we can achieve greater success relative to peers. As you read on, think about what questions you have regarding compliance, fees, investment strategy, or anything else that comes to mind.

A Chemical Imbalance. On January 25th, 2016, Axiall Chemical (AXLL) rejected a $1.4 billion bid from Westlake Chemical (WLK). When news hit of a potential behind the scenes deal on the 29th, Westlake's offer of $11 per share in cash plus 0.1967 shares of WLK sent AXLL shares up 79 percent to $17.60. Although Axiall's board of directors wanted nothing to do with Westlake's buyout, there was definite game theory that created an opportunity. Axiall's board rejected a $1.4 billion buyout, arguing that AXLL traded well above $20 per share for years, and the company was worth way more than what Westlake proposed. Given that Westlake put money on the table, was it reasonable to assume that AXLL was worth less than $11? Or $15? Or $17?

We established a position in AXLL on February 5th, with the idea of looking at two possible outcomes: either Axiall would accept Westlake's bid, or Westlake management would increase their bid given any negotiations that might ensue. By April 4th, Westlake raised its bid to $14 cash and 0.1967 shares WLK (at the time, a total consideration of about $23.35 per share for AXLL). In addition, Westlake planned a proxy battle due to Axiall's continued rejections; the company offered no negotiations or counter-offers. It was indeed a hostile takeover at its core. While the plot kept thickening, we continued to take advantage of the opportunity. As time went on, a third player came into the picture - Lotte Chemical Corporation, based in South Korea - who eventually forced Westlake's hand. Westlake obviously wanted Axiall badly; on June 10th, shortly after Lotte's bid, Westlake cut a deal with Axiall for $33 per share in cash. The pressure of a third party entering into the Axiall bidding resulted in very favorable circumstances for AXLL shareholders. It is the function of MountainWorks to find these situations and work to profit from them.

Step Into My Office (Depot). Staples (SPLS) and Office Depot (ODP) announced a merger on February 4th, 2015, in which ODP shareholders would receive $7.25 per share in cash plus 0.2188 shares of SPLS. In December 2015, the FTC challenged the merger on grounds of antitrust violation; citing price increases and reduced competition for large business-to-business transactions. The case hinged upon the FTC demonstrating clear pricing power on the part of Staples and Office Depot if the deal was consummated. Several witnesses from various companies were called to the stand, including Amazon, WB Mason, and McDonalds. Staples argued that Amazon was a clear threat in the B2B sector. With the company already reaching $1 billion in annual B2B revenues, it wouldn't be long before Amazon posed a legitimate threat to B2B companies like Staples and Office Depot. In the eyes of the defense, the merger was a 3-to-2 consolidation, not a 2-to-1 monopolization. The story was widely reported in the news as a landmark case involving internet retailers (Amazon) versus old-fashioned (and perhaps out-dated) brick and mortar companies who must consolidate in order to survive. While the story unfolded, we entered into an ODP position on March 23rd, 2016.

In the end, Judge Emmett Sullivan ruled in favor of the FTC, and filed an injunction against the SPLS and ODP merger. Immediately after the Judge rendered his decision, the deal broke, and ODP shares fell over 40%, and have not recovered. While the shares remain extraordinarily cheap relative to peers, this position is now one of the riskiest in the portfolio. However, we continue to hold the shares based on valuation and the oversold conditions that occurred after the merger broke:

Both the Axiall opportunity (which will soon be fully exited) and the Office Depot calamity represent opposing outcomes that can result from investing in the stock market, particularly relating to merger arbitrage situations. They are perfect examples of the risks and rewards that can result from investing in MountainWorks. While the Office Depot outcome is not ideal, it is a benchmark that I have personally learned from and will remember in the future. Axiall and Office Depot are two of approximately 16 different investments that we have participated in since February.

What's Next? We have discussed one current success, and one current failure experienced by MountainWorks. Could each investment have turned out better? Definitely. Is it possible that each investment could have been worse? Absolutely. So why consider MountainWorks? What are you paying for? What is the upside? In short, you are buying into real-time decision theory - and that decision theory will connect us together in order to achieve successes that yield tangible profits. I executed my first trade as a sophomore in high school (I managed to make a few dollars on Gateway Computers), and since that time I have slowly branched out into wide-spread areas like macroeconomics, and far reaching areas of the market that include stocks, bonds, and derivatives. I have strived to become better through studying books: Security Analysis, The Intelligent Investor, and Margin of Safety to name a few. I have read annual reports on Plum Creek Timber, BGC Partners, and Whole Foods Market. I have scrutinized merger agreements involving Alere, Abbott, St. Jude, and Green Mountain Coffee. I have authored over one dozen articles for Seeking Alpha. I have written over 1,300 lines of code to improve my techniques for valuation. After more than 14 years of investing, I can tell you that only now have I begun to scratch the surface.

You, however, currently stand at a crossroads. On the one hand, you have been invited to be a part of the business that will allow me to keep reaching higher, and improve even more, so that we can be successful together.

You are reading a member letter written by an investor with numerous professions, including teacher, adjunct professor, and coach. How will I have the time to deal with trials and triumphs in the markets? You might think that there are several better investment avenues out there, including hedge funds with multi-million dollar budgets that utilize near infinite resources to search and pin down valuable investments, and there cannot possibly be a Wall Street outsider who can achieve worthwhile returns over the long term. In response to this, I ask you to consider your requirements of me in order to warrant an investment in MountainWorks. Remember that at one time Benjamin Graham ran the Graham-Newman fund while lecturing as a professor at Columbia University; he lived through and invested during the Great Depression, and wrote hundreds of pages on investment theory (Warren Buffett, not coincidentally the greatest investor of the modern era, was about to become his best student). Surely at one time in his life people saw the odds stacked against him, yet to this day his Professor Graham's work endures. Indeed, I believe it is quite possible to find success, I believe it is difficult, and I believe it requires extraordinary adaptability. It is the same recurring theme that I live my life by, and the same motif that MountainWorks was created upon.

On the other hand, you must evaluate where you are in your life. Do you want someone else managing your financial assets? Are you invested in large, corporate vehicles like mutual funds or insurance companies? Are you a do-it-yourself investor? Do you have the commitment to researching company reports, crunching numbers on tangible book value, enterprise value, and discounted cash flows? Are you investing on value principles, event-driven outcomes, and establishing adequate margin of safety? Are you prepared to take large or small risks on your money? Do you want direct involvement in MountainWorks? Do you want daily updates or quarterly reports? Do you want to watch the portfolio at your leisure? Are you comfortable being patient with long term investments, or do you seek instant gratification? Keep in mind that there are risks to investing in MountainWorks. One of the key unknowns is that I am a sample size of one. There is no barometer to measure against. In all honesty, we don't know what will happen tomorrow. It is both intriguing, and daunting. There is a chance that I will not meet expectations, have negative returns, or even fail. Therefore, in the second half of 2016 keep a close eye on MountainWorks correspondence. With any questions you might have, be bold in your demands of me. Have confidence in your own ability to succeed. And most of all, think about your connection to MountainWorks.

Best,

Justin Polce
Managing Member
MountainWorks, LLC

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